

Message Text

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ACTION ARA-14

INFO OCT-01 EUR-12 EA-10 ISO-00 SOE-02 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11
OES-07 SP-02 SS-15 STR-07 TRSE-00 ACDA-12 DOTE-00
PA-01 OPIC-03 /156 W
-----021081 231822Z /42

R 202244Z APR 78
FM AMEMBASSY GUATEMALA
TO SECSTATE WASHDC 0009
INFO AMEMBASSY BONN
AMEMBASSY JAKARTA
AMEMBASSY MANAGUA
RUEHMEXAMEMBASSY MEXICO 3688
AMEMBASSY PANAMA
AMEMBASSY PARIS
AMEMBASSY SAN JOSE

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E.O. 11652: N/A
TAGS: ENGR, EINV, GT
SUBJ: OIL PIPELINE PROPOSED BY NATIONAL RAILROAD

REF: A) GUATEMALA 2178 B) GUATEMALA 1226

1. SUMMARY: THE GUATEMALAN NATIONAL RAILROAD, FERROCARRILES DE GUATEMALA (FEGUA), HAS ANNOUNCED A PROPOSAL FOR CONSTRUCTION OF A TRANS-GUATEMALA OIL PIPELINE. THIS IS A SEPARATE PROPOSAL COMPETITIVE WITH THE INTERMARES PROPOSAL REPORTED REFTELS. THE HAD OF FEGUA STATED TO AN EMBASSY OFFICIAL THAT THE PROPOSAL IS QUITE PRELIMINARY AND WAS DONE "IN HOUSE" BY FEGUA TECHNICIANS. THE DATA, NOTED BELOW, ARE ESTIMATES. THE PRIMARY ADVANTAGE OF THE FEGUA PROPOSAL IS SUGGESTED USE OF THE EXISTING RAILROAD RIGHT-OF-WAY FROM
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PUERTO SAN JOSE TO PUERTO BARRIOS. NO ACTION REQUESTED.
END SUMMARY.

2. PRESS RELEASE POUCHED ARA/CEN. FERROCARRILES DE GUATEMALA MANAGER, CORONEL FRANCISCO ARDON FERNANDEZ, HAS ANNOUNCED A FEGUA PROPOSAL FOR THE CONSTRUCTION OF AN INTER-OCEAN PIPELINE. THE PROPOSAL INCLUDES PORT

CONSTRUCTION TO SERVICE 200,000 TON TANKERS ON BOTH THE PACIFIC AND ATLANTIC PORTS. THE PROPOSED 273 MILE PIPELINE WOULD HAVE TERMINALS CAPABLE OF HOLDING 3 MILLION BARRELS IN SAN JOSE AND 4.5 MILLION BARRELS IN PUERTO BARRIOS. THE INITIAL 600,000 BARREL PER DAY CAPACITY OF THE PIPELINE WOULD BE INCREASED PROGRESSIVELY TO 1.8 MILLION BARRELS PER DAY.

3. THE INVESTMENT IS ESTIMATED AT BETWEEN 550 TO 600 MILLION DOLLARS TO BE REPAID IN 8 YEARS FOLLOWING TWO YEARS OF GRACE. (THIS IMPLIES AN INTEREST RATE ABOVE 8.1 PERCENT, IN OTHER WORDS NON-CONCESSIONAL INTEREST RATES.) GROSS RECEIPTS DURING THE FIRST 10 YEARS WOULD BE DIVIDED 70 PERCENT FOR AMORTIZATION OF CAPITAL AND INTEREST, 15 PERCENT FOR OPERATIONS AND 15 PERCENT FOR PROFITS WHICH WOULD BE DISTRIBUTED 51 PERCENT TO FEGUA AND 49 PERCENT TO A FINANCIAL CONSORTIUM. THE INVESTMENT IS CONSIDERED "SELF-FINANCIBLE" WITH NO MONEY REQUIRED FROM EITHER THE GOG OR FEGUA.

4. THE COST PER BARREL OF THROUGH-PUT IS ESTIMATED AT 35 CENTS AND WOULD BE ADJUSTED FROM TIME TO TIME ACCORDING TO MARKET DEMAND.

5. THE FEGUA PROPOSAL STATES THAT A US FIRM FROM NEW ORLEANS, "THE KEATING COMPANY," IS PREPARING A FORMAL LIMITED OFFICIAL USE

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PROPOSAL ON THE FINANCIAL CONSORTIUM AND THE TOTAL NECESSARY ENGINEERING PACKAGE. THE FIRM REQUESTED AN EXCLUSIVE OPTION AND THIS REQUEST HAS BEEN FORWARDED TO THE MINISTRY OF ECONOMY.

6. THE PROPOSAL CONTINUES WITH SEVERAL THEMES CONCERNING THE IMPORTANCE OF A "GUATEMALA/ PROJECT RATHER THAN A PROJECT CONTROLLED BY FOREIGN INTERESTS. ANOTHER THEME IS THE GREAT BENEFIT WHICH FEGUA WOULD DERIVE FROM HIGH EARNINGS WHICH COULD BE USED TO DEVELOP NEW RAIL SERVICES.

7. CORONEL ARDON INDICATED TO AN EMBASSY OFFICER THE PRELIMINARY NATURE OF THE PROPOSAL. HOWEVER, HE CLEARLY FEELS THAT THE FEGUA PROPOSAL IS VASTLY SUPERIOR TO THAT MADE BY INTERMARES. HE UNDERLINES THE FACT THAT THE RAILROAD RIGHT-OF-WAY PROVIDES CONSTRUCTION ACCESS FOR BUILDING THE PIPELINE WITH NO NECESSITY FOR PURCHASE OF A SWATH OF LAND CROSSING GUATEMALA.

8. COMMENT: THIS NEW ENTRY INTO THE TRANS-GUATEMALA PIPELINE PROMOTION LEAVES UNANSWERED THE BASIC QUESTIONS RAISED AGAINST SUCH A PROJECT IN REFTEL A. ONE CERTAIN RESULT IS A NEW

FLOOD OF REQUESTS FOR BACKGROUND FROM ASPIRING CONTRACTORS
AND VENDORS. ONE PRESUMES THAT THE GEGUA SWICHBOARD
HAS NOT SEEN SUCH ACTIVITY IN RECENT MEMORY.
BOSTER

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